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Better finances,
better lives

Budget 2000

Tax Relief for Canadians

February 28, 2000

Canada

"Today we are setting out a five-year tax plan so that individuals, families, small businesses and others will know for certain that their taxes will fall this year, next year and in the years to come."

Finance Minister Paul Martin
2000 budget speech

Five-Year Tax Reduction Plan

The 2000 budget proposes a five-year tax reduction plan that includes the most important structural changes to the federal tax system in more than a decade. The Plan will:

- immediately restore full indexation of the personal income tax system to protect taxpayers against automatic tax increases caused by inflation – this will benefit every Canadian; and
- reduce the middle income tax rate to 23 per cent from 26 per cent, starting with a 2-point reduction to 24 per cent in July 2000 – this will cut taxes for 9 million Canadians.

Additional key personal income tax measures of the Plan will:

- increase the amount that Canadians can earn tax-free to at least \$8,000 and the amounts at which the middle and top tax rates apply to at least \$35,000 and \$70,000 respectively;
- enrich the Canada Child Tax Benefit (CCTB) by \$2.5 billion a year by 2004 to more than \$9 billion annually – maximum benefits will reach \$2,400 for a first child and \$2,200 for a second child;

- eliminate, as of July 1, 2000, the 5-per-cent deficit-reduction surtax on middle-income Canadians with incomes up to about \$85,000, and completely eliminate it by 2004; and
- raise to 25 per cent for 2000 and to 30 per cent for 2001 the permissible foreign content of investment in registered pension plans and registered retirement savings plans.

Additional measures will help Canadian businesses to become more competitive internationally by making the tax system more conducive to investment and innovation. To ensure continued growth and job creation in a global economy that is increasingly knowledge-based, the Plan will:

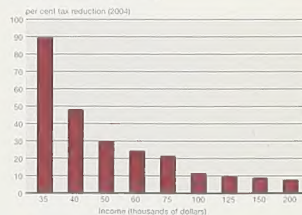
- reduce corporate tax rates to 21 per cent from 28 per cent within five years for the highest taxed business sectors, such as high-technology, beginning with a drop to 27 per cent effective January 1, 2001;
- reduce the corporate tax rate to 21 per cent from 28 per cent on small business income between \$200,000 and \$300,000 effective January 1, 2001;
- lower capital gains taxes by reducing the amount of capital gains included in income for tax purposes from three-quarters to two-thirds;
- postpone the taxation of gains on shares acquired under qualifying stock options to when shares are sold, rather than when the options are exercised; and
- allow a tax-free rollover of capital gains on qualified investments from one small business to another.

Real and Lasting Tax Relief

The Plan, which places a special emphasis on the needs of families with children, will mean more money in the pockets of Canadians.

- Taxes will be reduced by a cumulative amount of at least \$58 billion over five years.
- Personal income taxes will be reduced by an average of 15 per cent annually by 2004-05.
- Low- and middle-income Canadians will see their personal income taxes reduced by an average of 18 per cent.
- With substantially enriched benefits under the CCTB, families with children will see their personal income taxes reduced by an average of 21 per cent.

Proportionate Tax Reductions
Are Larger at Lower Incomes
(One-earner family of four)



Families of four earning under about \$35,000 are net beneficiaries as they get more in benefits than the taxes that they owe.

The Plan will provide immediate tax reductions that will grow over time.

In 2001 a typical:

- one-earner family of four with about \$32,000 of income will receive more benefits under the CCTB and the goods and services tax (GST) credit than it will pay in personal income taxes. This means that the family will pay no net tax;
- one-earner family of four with \$40,000 of income will have its net personal income taxes reduced by 17 per cent; and
- two-earner family of four with \$60,000 of income will see its net personal income taxes reduced by almost 9 per cent.

By 2004 a typical:

- one-earner family of four with about \$35,000 of income will pay no net personal income tax;
- one-earner family of four earning \$40,000 will see its net personal income taxes reduced by at least \$1,623 a year, a reduction of 48 per cent; and
- two-earner family of four with income of \$60,000 will see its net personal income taxes reduced by at least \$1,546 a year – a reduction of 27 per cent.

Protecting Canadians Against Inflation

The Plan proposes to restore full indexation of the personal income tax system effective January 1, 2000. This will:

- stop bracket creep – wage increases equal to inflation will no longer push income into a higher tax bracket. This increases tax fairness because the real value or purchasing power of such wages does not increase; and
- stop benefit erosion – the real value of benefits such as the GST credit and the CCTB will automatically increase to offset inflation.

Automatic Reduction in the Tax Burden From Indexation

In 2000, Sharon earns \$25,000. She also receives the GST credit and the CCTB for her son.

Each year, she receives a pay increase in line with inflation¹ so that by 2004 her income totals \$27,250.

In 2004, under a non-indexed tax system, she would pay net federal tax of \$407, consisting of \$2,122 of tax payable minus combined benefits of \$1,715 (CCTB of \$1,278 and GST credit of \$437).

Under an indexed tax system, Sharon would instead receive a net benefit of \$291 in 2004 – a net gain of \$698 – as the benefits she receives would exceed the tax that she pays.

Sharon's net gain of \$698 results from her tax payable decreasing by \$202 and her benefits increasing by \$496 (a \$385 increase in CCTB and a \$111 GST credit increase).

¹ Average annual inflation rate of 1.8 per cent is used over a five-year period.

Indexation – Particular Gains for Low-Income Canadians

Full indexation will help all Canadians, but will especially benefit low-income individuals as:

- Canadians with incomes under \$30,000 pay about 1 per cent of net personal income taxes, but will receive 40 per cent of the benefit from indexation;
- indexation will provide more than \$500 million in additional GST credits by the fifth year of the Plan; and
- child tax benefits will automatically increase in line with inflation.

Indexation – Protection for Seniors

Public pension benefits under the Canada Pension Plan, Old Age Security (OAS) and the Guaranteed Income Supplement are already fully indexed to inflation.

With indexation, the age credit, the OAS reduction threshold and the GST credit will also be fully indexed to inflation, as will the rest of the personal income tax system, including the thresholds at which tax rates apply.

By 2004:

- a single senior with an income of \$15,000 will have his or her net personal income taxes reduced by 84 per cent or \$228;
- a senior couple with an income of \$30,000 will have its net personal income taxes reduced by 45 per cent or \$546; and
- a senior couple with an income of \$60,000 will have its net personal income taxes reduced by 16 per cent or \$1,564.

Substantial Tax Cuts for Middle-Income Canadians

Middle-income Canadians will receive substantial tax relief under the Plan.

- For the first time in 12 years, an income tax rate – specifically the middle tax rate – will be lowered.

An average family of four will pay \$600 less in income tax next year and \$900 less a year when the lower rate is fully in place.

- Canadians will be able to earn more income tax-free and more of their income will be taxed at lower rates.

Some income now taxed at the middle tax rate will be taxed at the lowest rate, while other income taxed at the top tax rate will be subject to the middle rate.

- The 5-per-cent deficit reduction surtax will be eliminated for middle-income taxpayers with incomes up to about \$85,000.

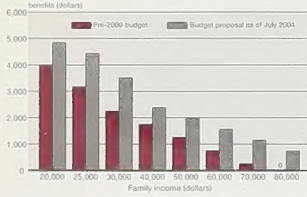
This surtax and the 3-per-cent general surtax (paid by all taxpayers) were implemented in the 1980s to help reduce the deficit. With the deficit eliminated, the 1998 and 1999 budgets eliminated the general surtax.

- Benefits under the CCTB will increase substantially.

By 2004, maximum annual benefits for lower-income families will be \$2,400 for the first child and \$2,200 for a second child. The maximum benefit for the first child in July 2000 will increase to \$2,056 from \$1,805, and will increase to \$2,265 in July 2001.

There will be substantial increases in benefits for middle-income families. By 2004, a two-child family with income of \$60,000 will see their CCTB more than double to \$1,541 from \$733.

CCTB Benefits¹ by Income Level for a Two-Child Family
(With one child under the age of 7)



¹ Includes additional benefit available for children under 7 years of age for whom no child care expense is claimed.

Examples of the Amount of Tax Reduction

Some typical examples of the tax relief Canadians will receive by 2004 as a result of the Plan are set out below, as are the first full-year tax reductions under the Plan.

Single Parent – One Child; Income of \$30,000

Under the first full year of the Plan, a single parent earning \$30,000 will receive a net federal tax reduction of \$373, consisting of a \$72 reduction in tax, a \$281 CCTB increase and a \$20 increase in the GST credit.

In 2004, this parent will receive a net federal tax reduction of \$986, consisting of a \$274 reduction in tax, a \$663 CCTB increase and a \$49 increase in the GST credit.

One-Earner Family of Four; Income of \$40,000

Under the first full year of the Plan, a one-earner family of four with income of \$40,000 will receive a net federal tax reduction of \$582 (17 per cent), consisting of a \$347 reduction in tax and a \$235 CCTB increase.

In 2004, this family will receive a total net federal tax reduction of \$1,623 (48 per cent), consisting of a \$911 tax reduction, a \$637 CCTB increase and a \$76 increase in the GST credit.

Two-Earner Family of Four; Income of \$60,000

Under the first full year of the Plan, a two-earner family of four with income of \$60,000 will receive a net federal tax reduction of \$501 (almost 9 per cent), consisting of a \$273 tax reduction and a CCTB increase of \$228.

In 2004, this family will receive a total net federal tax reduction of \$1,546 (27 per cent) consisting of an \$812 tax reduction and a \$734 CCTB increase.

Minimum \$58 Billion Cumulative Tax Reduction Under the Plan
Size of tax relief (billions of dollars)

| | 2000-2001 | 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 | Total |
|--------------------------------|------------|------------|-------------|-------------|-------------|-------------|
| Personal income tax | 3.3 | 5.6 | 7.2 | 8.7 | 14.7 | 39.5 |
| Corporate income tax | -0.1 | 0.3 | 0.5 | 0.5 | 2.9 | 4.0 |
| Employment insurance (EI) | 1.4 | 2.2 | 3.0 | 3.8 | 4.4 | 14.8 |
| Total tax and EI relief | 4.6 | 8.1 | 10.6 | 13.0 | 22.1 | 58.3 |

The \$58 billion in tax relief is an absolute minimum estimate of cumulative tax relief over five years in that it:

- only includes actions legislated in the 2000 budget for the next two years; and
- assumes all remaining personal and corporate tax cuts take place in the fifth year.

To the degree that these remaining actions are taken sooner – or tax reductions exceed those set out in the Plan – the cumulative tax relief would exceed \$58 billion.

For example, the size of cumulative tax relief would increase by almost \$2 billion if the final point reduction of the middle tax rate were to occur earlier on July 1, 2002, rather than in the final year of the Plan.

As another example, the size of cumulative tax relief would increase by almost \$1.5 billion if corporate tax reductions (from the 27 per cent proposed to be legislated in January 2001) to 21 per cent occurred in the last two years rather than in the final year of the Plan.

How Can I Get More Information on the 2000 Budget?

Information is available on the Internet at <http://www.fin.gc.ca/>

You can also obtain copies of this brochure or other budget documents from the

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